



Wilson Central School District Reserves and Fuel Accountability

Report of Examination

Period Covered:

July 1, 2011 – December 22, 2015

2016M-44



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Wilson Central School District, entitled Reserves and Fuel Accountability. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Wilson Central School District (District) is located in the Towns of Wilson, Cambria, Lockport, Newfane and Porter within Niagara County. The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the direction of the Board. The Business Administrator is responsible for accounting for the District's finances, budgeting and maintaining accounting records.

Scope and Objective

We examined the District's reserves and accountability over fuel used for student transportation for the period July 1, 2011 through December 22, 2015. We extended our scope back to July 1, 2002 to review certain reserve activity and extended our scope back to July 1, 2010 to review certain prior fuel reconciliation documentation. Our audit addressed the following related questions:

- Does the District properly manage financial reserves in accordance with statutes?
- Does the District ensure that fuel purchased for bus transportation services is properly accounted for?

Audit Results

The Board has not properly managed financial reserves or sufficiently followed the District's reserve policy and regulations. District officials were unable to provide us with evidence that they have documented the financial need or purpose to be served for each reserve, the conditions under which reserves will be used or replenished and the rationale used to determine the appropriate funding level for each reserve. As of June 30, 2015, the District had seven reserves totaling approximately \$11 million. We found that four reserves, with balances totaling \$7.3 million, appear to be overfunded. In addition, the District has not properly used the debt reserve, which had a balance of \$2.9 million, to pay related debt.

District officials did not provide appropriate oversight of fuel that was delivered to the transportation contractor's tanks. As a result, the District cannot be certain that all of the fuel purchased by the District was used for District purposes. It appears that the District may have purchased approximately 3,800 gallons of fuel, valued at approximately \$7,300, more than it should have.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with certain findings but indicated they planned to implement some corrective action. Appendix B includes our comment on issues raised in the District's response letter.

Introduction

Background

The Wilson Central School District (District) is located in the Towns of Wilson, Cambria, Lockport, Newfane and Porter within Niagara County. The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the direction of the Board. The Business Administrator is responsible for accounting for the District's finances, budgeting and maintaining accounting records. The District operates two schools with 1,287 students.

The District's budgeted appropriations for the 2015-16 fiscal year total \$24.9 million, which are funded primarily with State aid and real property taxes. As of June 30, 2015, the District had approximately \$8.1 million in general fund reserves and \$2.9 million in a debt reserve.¹ This combined total represents approximately 44 percent of the 2015-16 budget. The District contracts with a transportation company for student bus services and is responsible for supplying fuel for the buses used for this service.

Objective

The objective of our audit was to review the District's reserves and accountability over fuel used for student transportation. Our audit addressed the following related questions:

- Does the District properly manage financial reserves in accordance with statutes?
- Does the District ensure that fuel purchased for bus transportation services is properly accounted for?

Scope and Methodology

We examined the District's reserves and accountability over fuel used for student transportation for the period July 1, 2011 through December 22, 2015. We extended our scope back to July 1, 2002 to review certain reserve activity and extended our scope back to July 1, 2010 to review certain prior fuel reconciliation documentation.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

¹ The debt reserve is accounted for in the debt service fund.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with certain findings but indicated they planned to implement some corrective action. Appendix B includes our comment on issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Reserves

The Board may establish reserve funds and retain portions of fund balance² to finance future costs for a variety of specified objects or purposes but must do so in compliance with statutory requirements. While school districts are generally not limited as to how much money can be held in reserves, balances should be reasonable. Therefore, it is important that the Board adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve, targeted funding levels and conditions under which reserves will be used or replenished.

The Board should include the amounts to be placed in reserves in the annual budget to inform voters of its plan for funding reserves and not routinely fund reserves with excess fund balance at year-end. The Board should periodically assess the reasonableness of the amounts accumulated in each reserve. When warranted, the Board should reduce reserve balances to a reasonable level or liquidate and discontinue a reserve that is no longer needed or whose purpose has been achieved. Reserve balances that are greater than needed should be used to benefit District residents.

The Board has not properly managed reserves or sufficiently followed the District's reserve policy and regulations.³ District officials were unable to provide us with evidence that they have documented the financial need or purpose to be served for each reserve, the conditions under which reserves will be used or replenished and the rationale used to determine the appropriate funding level for each reserve. In addition, there was no evidence that District officials periodically assessed the reasonableness of the reserve balances. While the Board annually budgeted for the use of debt reserve funds, the Board did not plan for the use of or funding of general fund reserves as a part of the budgeting process. A more transparent method would have been to include the appropriation of general fund reserve funds in the annual budget.

As of June 30, 2015, the District reported six⁴ general fund reserves with balances totaling approximately \$8.1 million and a debt reserve in the debt service fund totaling approximately \$2.9 million. The total

² Fund balance represents the cumulative residual resources from prior fiscal years.

³ The reserve policy was adopted in 2013 and the associated reserve regulations were adopted in 2014.

⁴ The District maintains three separate capital reserves within the capital reserve account. As such, we counted the three reserves collectively as one capital reserve.

of these reserves represents approximately 44 percent of the District's budget. Reserve balances have remained relatively consistent during our audit period. While three general fund reserves⁵ are regularly used for related expenditures, their balances are generally replenished from year-end operating surpluses. We analyzed the reserves for reasonableness and adherence to statutory requirements and found that the District properly established all general fund reserves and reasonably funded the retirement contribution reserve⁶ (\$460,000) and employee benefit accrued liability reserve (\$375,000). However, the remaining general fund reserves, totaling approximately \$7.3 million, appear to be overfunded because balances were excessive compared to the potential costs for which they were established. Excessive funds could be transferred to other legally established reserves, as applicable, or possibly used to reduce the tax levy. We also found that the District has a considerable balance in the debt reserve that is not being properly used.

Capital Reserve – This type of reserve is established to pay the cost of any object or purpose for which bonds may be issued. Education Law authorizes the establishment of this reserve to accumulate resources for future capital projects, subject to the approval of District voters. As of June 30, 2015, the District has three separate capital reserves with a combined total balance of \$5.3 million, or 21 percent of the District's budget. The District properly established each capital reserve and has not exceeded funding limits. However, the propositions establishing the reserves were generally vague and not sufficiently specific because they did not identify the specific capital projects that the reserve funds would be used for.

Since 2010, the District used \$2 million from the capital reserves for expenditures related to two separate capital projects. During this same period, though not included in the original budget, the District transferred over \$2.4 million back into the reserves from year-end surplus funds. As a result, the balance in the capital reserves did not decrease. Rather, it increased by over \$400,000. While the use of these reserves was approved by voters, the transfer of surplus funds back into the reserves was unplanned and was not included in the budgets. A more transparent practice would be to include all funding of reserves in the budgets presented to District residents. In this way, District residents would be aware of the District's intent to use funds for this purpose.

⁵ Capital, unemployment and employee benefit accrued liability reserves

⁶ While this reserve appears to be funded at a reasonable level, it has not been used for New York State and Local Retirement System payments since at least July 1, 2009. The District levies taxes for these payments.

In addition, the District did not have a documented plan for any immediate capital projects for which these funds could be used. As such, we question the continuation of adding surplus funds to these reserves. While it is a prudent practice for a district to save for future capital projects, retaining more funds than necessary results in an unwarranted retention of District residents' funds that could be used toward a more beneficial purpose. If voters determine that the original purpose for which a capital reserve was established is no longer needed, the reserve may be liquidated by first applying its proceeds to any related outstanding indebtedness and then applying the balance, if any, to the annual tax levy.⁷

Workers' Compensation Reserve – This type of reserve is established to pay compensation benefits and other expenses when a district elects to be self-insured for this purpose. As of June 30, 2015, the balance in this reserve was approximately \$820,000. We analyzed the reasonableness of the current balance and found it to be excessive. The average annual workers' compensation expenditures have been approximately \$14,000 per year.⁸ Based upon this average cost, the District could pay related expenditures for more than 50 years. In addition, the District has not used the funds in this reserve for workers' compensation payments since at least July 1, 2009. Rather, the District levies taxes to fund anticipated workers' compensation expenditures included in the budget. Therefore, the District should consider reducing this reserve and using excess funds towards a purpose more beneficial to District residents.

Insurance Reserve – This type of reserve is established to fund certain uninsured losses, claims, actions or judgments for which a district is authorized or required to purchase insurance. As of June 30, 2015, the balance in this reserve was approximately \$730,000. The District established this reserve in April 1995 and has not used it since at least July 1, 2009. Current insurance coverage includes a deductible of \$1,000 and appears adequate to cover losses. Given the absence of a formalized plan detailing the expected use of these funds, we question the need for this reserve. Therefore, the District should consider eliminating this reserve and using the proceeds toward a purpose more beneficial to District residents.

Unemployment Insurance Reserve – This type of reserve is used to fund payments made when a district elects to reimburse the New York State Unemployment Insurance Fund for actual claims filed. As of June 30, 2015, the balance in this reserve was \$400,000. While the

⁷ The District should consult with legal counsel prior to liquidating or removing funds from a reserve.

⁸ Workers' compensation expenditures for the last three years – 2012-13, 2013-14 and 2014-15.

District uses funds in this reserve for unemployment payments, it does not plan in advance for this use by appropriating reserve funds in the budget as a funding source. Rather, the Board and District officials budget for unemployment expenditures by levying taxes and decide whether to use reserve funds at the end of the fiscal year. In addition, the District has transferred more money into this reserve than it has removed to pay for unemployment expenditures.⁹ Therefore, in effect, all payments were budgeted for and paid from real property taxes levied in the general fund, without using any money from the reserve.

We analyzed the reasonableness of the current balance in this reserve and found that it is excessive. The average annual amount removed from this reserve for unemployment costs has been approximately \$27,250 per year.¹⁰ Based on this level of expenditure, the District could pay related expenditures for approximately 14 years. Therefore, the District should consider reducing this reserve and using excess funds towards a purpose more beneficial to District residents.

Debt Reserve – A debt reserve must be established if unexpended bond proceeds remain on a capital improvement financed with debt. If a district has residual bond proceeds or interest earned on bond proceeds, that money must be used to pay for debt service on the related obligations or for capital expenditures associated with the project for which the debt was issued. This money must be accounted for in the debt service fund.

The District established a debt reserve in 2002 and funded it with \$2 million that appears to have originated in part from building aid. As of June 30, 2015, the District reported a balance in this reserve of approximately \$2.9 million. In two of the last three years,¹¹ officials have transferred a total of \$650,000 from the debt reserve to the general fund to be used toward debt service payments. However, they did not use any money from this reserve in 2014-15.

The District does plan in advance for the use of the debt reserve by including a transfer in the annual budget. However, the District generally does not transfer the full amount included in the budget. As the purpose of this reserve is to pay outstanding debt, we question why the District does not use all of the funds in the debt reserve until they are exhausted by making debt service payments rather than continuing to levy taxes for this purpose. In addition, any building aid received by the District in 2002 should have been used to pay for

⁹ Since July 1, 2012, \$142,985 has been transferred into the unemployment reserve and \$81,729 has been withdrawn.

¹⁰ Unemployment expenditures for last three years – 2012-13, 2013-14 and 2014-15.

¹¹ \$300,000 was transferred in 2012-13 and \$350,000 was transferred in 2013-14.

the debt service associated with the capital project that the building aid was received for. However, the original \$2 million appears to still be in the debt reserve.

The District generated operating surpluses totaling approximately \$1.5 million in the general fund over the three-year period examined and then transferred the majority of those funds into certain general fund reserves.¹² This resulted in little need to use reserve funds for expenditures that may have been chargeable to them because sufficient appropriations were available in the general fund budget to cover those expenditures. By maintaining excessive or unnecessary reserves, the Board and District officials may have missed opportunities to lower the property tax burden for District residents and withheld funds from being used to meet District needs.

Recommendations

The Board and District officials should:

1. Review and address the requirements for reserves in the District's related policy and regulations. Specifically, they should document the purpose to be served by each reserve, the rationale used to determine the appropriate funding level, how each reserve will be funded and when the balances will be used to finance related costs.
2. Review all reserves at least annually to determine if the amounts reserved are necessary and reasonable. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with statutory directives.
3. Use the money in the debt reserve to pay related debt.

¹² Capital, unemployment insurance and employee benefit accrued liability reserves

Fuel Accountability

The Board is responsible for establishing policies and procedures to safeguard and account for fuel purchased by the District. When the District's fuel is delivered, stored and dispensed at a transportation contractor's facility, the Board should ensure that the contractor establishes sufficient controls over the fuel supplies and properly monitors the contractor's activities. This becomes especially important when the fuel is commingled with fuel purchased by others. District officials should periodically review fuel usage records and year-end fuel usage reports to ensure that the records are adequate and that fuel is used appropriately and accounted for.

District officials did not provide adequate oversight of fuel purchased for student bus transportation to ensure that the fuel was properly used and accounted for. The District contracts with a transportation contractor (contractor) for student bus transportation services.¹³ The agreement with the contractor requires that the District supply all fuel used for District transportation.¹⁴ In addition to the Wilson Central School District, the contractor provides student transportation services to another neighboring school district. Both districts purchase fuel that is delivered to tanks located on the contractor's property.¹⁵ The contractor initiates fuel deliveries¹⁶ and determines which district will eventually be billed. The method used to calculate the percentage share of estimated fuel use appeared reasonable. However, the procedure used to resolve the resulting inequity of fuel between the two districts was confusing, inconsistent and did not result in a reconciliation of fuel purchases. As a result, the District cannot be certain that all of the fuel it purchased was used for District purposes.

In the 2014-15 fiscal year, the District purchased 49,746 gallons of diesel and unleaded fuel that was delivered to the contractor's tanks, at a total cost of \$117,278. The contractor's facility is not capable of segregating fuel purchases for each district and, consequently, fuel purchased by both districts is commingled into the same fuel

¹³ The District has contracted with this transportation contractor since 1979.

¹⁴ In exchange for providing fuel, the contractor applies a fuel credit to the monthly bill.

¹⁵ The contractor also uses a portion of this fuel for its service vehicles, the amount of which is not documented. The contractor pays for one fuel delivery annually to account for this usage.

¹⁶ The propriety of the contractor placing orders for fuel with invoices sent directly to the District is not within the scope of this audit.

tanks.¹⁷ Furthermore, the contractor does not use an electronic fuel monitoring system and has not implemented an alternative method of tracking the amount of fuel used for each district's transportation needs. As a result, the contractor is unable to determine the exact amount of fuel used for each district and used by the contractor for its service vehicles.¹⁸ This arrangement does not allow the District to accurately determine if it is purchasing the correct amount of fuel.

In an attempt to determine how much fuel each district should be purchasing, the contractor¹⁹ developed a procedure to calculate each district's approximate proportional share of fuel use. Because actual fuel and mileage information is not available, the fuel use calculation is based on estimated miles traveled by the buses assigned to each district for the year.²⁰ The contractor tracked how much fuel each district was billed for the current year, decided which district should be billed next, and directed the fuel vendor to bill the selected district. If the annual fuel usage calculation showed that a district did not purchase enough fuel by the end of the current year, the contractor documented a shortage amount with the intention of having that district purchase more fuel in the next year. There is no evidence that the fuel usage process was ever documented in a formal agreement to establish that each district approved of the method that would be used and understood what action would be taken as a result.

We requested to review the fuel usage calculation including supporting records for the last two fiscal years. The contractor told us that it did not prepare this calculation for the last two years but could provide us with fuel usage calculations for the 2011-12 and 2012-13 fiscal years.²¹ We found that the method used to calculate the percentage share of estimated fuel use appeared reasonable. However, the procedure used to resolve the resulting inequity of fuel between the two districts was confusing, inconsistent and did not result in a reconciliation of fuel purchases. The district that did not purchase enough fuel was not obligated to compensate the district that purchased too much fuel. Also, the contractor's use of the same fuel tank for service vehicles was not required to be taken

¹⁷ The contractor has a 10,000 gallon diesel tank and a 3,000 gallon unleaded tank located at the main bus garage. There are also two smaller diesel tanks located at facilities closer to each of the two school districts. The contractor told us that fuel delivered to the smaller diesel tanks is generally used exclusively for one district.

¹⁸ The contractor also does not track fuel used for its service vehicles.

¹⁹ The fuel usage calculation was developed by an accountant hired by the transportation contractor. The accountant no longer works for the transportation contractor.

²⁰ Estimated miles is converted to an estimate of how many gallons of fuel would be necessary to travel those miles.

²¹ The contractor stated that it did not sufficiently understand the process developed by its former accountant and, therefore, did not prepare the fuel usage calculation.

into consideration. Consequently, the fuel usage calculation provided limited usefulness.

We attempted to assess whether the District purchased the correct amount of fuel for fiscal years 2011-12 through 2014-15.²² To do this, we calculated the proportionate fuel usage for each district based on estimated miles traveled,²³ converted to gallons of fuel for each of the last four years and compared it to the amount of fuel the districts actually paid for. We found that the contractor did a fairly good job of selecting which district should be billed for fuel because the yearly variances were generally minimal. However, because the District did not ensure that fuel was properly accounted for annually, it appears the District may have purchased approximately 3,800 gallons, valued at approximately \$7,300, more than it should have.²⁴

Furthermore, the District did not provide appropriate oversight of the process. District officials did not review or request the fuel usage calculation for at least the last two years. The transportation vendor did not prepare the usage calculation for the 2013-14 and 2014-15 fiscal years and District officials never questioned why it was not done. The only documents officials reviewed on a regular basis were fuel invoices, delivery tickets and the report of how much fuel was paid for by each district. By not reviewing or providing input into the fuel allocation methodology used by the contractor, officials were unable to attest that the calculation was properly done, accurately calculated²⁵ or provided any value to the District. By not providing proper oversight, officials were not aware if the District purchased more fuel than necessary and, therefore, could not reconcile any differences with the contractor and the other district.

Recommendations

The Board should:

4. Contact the other school district and the contractor to formally document the process that will be used to determine equitable fuel use. The formal agreement should include who will prepare the fuel usage calculation and the process that will be used to reconcile the equity of the fuel purchases and usage.

²² We used the shortage amount as calculated by the contractor on the 2010-11 fuel usage report as a starting point.

²³ The contractor supplied the data used to estimate total miles traveled for each district's student transportation.

²⁴ Over the four-year period reviewed and using the fuel usage results from 2010-11 as a starting point

²⁵ We found mathematical errors in the calculations that we reviewed for 2011-12 and 2012-13.

5. Establish policies and procedures to ensure that both the District and the transportation contractor have adequate controls to safeguard and account for the District's fuel supplies.
6. Ensure that fuel usage calculation is reviewed on an annual basis.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



Wilson Central School

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Mr. Jeffery D. Mazula
Chief Examiner of Local
Government and School Accountability
295 Main Street, Room 1032
Buffalo, NY 14203-2510

May 31, 2016

Dear Mr. Mazula:

The Wilson Central School District is in receipt of the audit report by the Office of the State Comptroller. The Board of Education of Wilson Central School District has reviewed and approved this response.

The Wilson CSD is pleased that the Office of State Comptrollers did not find any instances of fraud or misappropriation of funds in their audit of "Wilson Central School District" reserves and bus fuel usage. The District is however concerned and disappointed with the tone and use of language that lacks objectivity, presented in their report. By openly saying in the exit interview that "we are here for the taxpayer", is clearly one sided. Wilson Central School District not only balances taxpayer obligations, but also academic obligations for the students. The report makes an obvious attempt to unnecessarily lead the readers by casting an unfavorable light regarding how the District purposefully and publicly manages their finances.

See
Note 1
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The District takes issue on the following points addressed in the audit.

The scope and objective does not reflect the whole picture of Wilson CSD. Wilson CSD has a history long before the small sample of years used in the audit. The Districts' practices and philosophies have stood the test of time. The District feels that the small sample size ignores and unjustly compares, and takes out of context, distorting some of the audits "facts". The district also has a present, and hopefully, with continued exemplary guidance by the Board of Education coupled with professional management by administration and delivery by staff, Wilson CSD will have a viable and sustainable future.

Our recent Moody's rating of Aa3 in their credit opinion states as strengths "stable financial performance with strong reserve and liquidity position, above average debt repayment". "Factors that could lead to a downgrade: failure to maintain structurally balanced operations leading to decline in reserves and liquidity". Moody's is the premier rating agency in the world. Their objective reporting is fair and balanced. In this opinion, the District has done a remarkable job in their handling of finance.

By focusing on a limited time frame and using questionable methodologies, unrealistic conclusions were drawn by the auditors. A far different picture would be painted to the public if some missing information was included and obvious contradictions were removed. While we again state that we are in agreement that there is no fraud or misappropriations of funds, the district disagrees with the opinions and inflammatory conclusions of the auditors that only serve to incite the general reader.

Specifically, the two questions the scope and objective attempted to address are both, in the District's opinion, answered with a simple "yes".

Question one per the report:

Does the District properly manage financial reserves in accordance with statutes? Our answer: YES.

Per the report; at no time in the audit report does it find that reserve or fund balance statutes have been breached. Rather, the report chooses to smear the district with the vague opinion of "four reserves, with balances totaling \$7.3 million, appear to be overfunded". The auditors can justify their math to back up their claims, which was admittedly "made up" by the auditor, but it is still, just an opinion that it "appears to be overfunded". Continued "unfunded mandates", such as APPR and the pending increased minimum wage need to be funded. The "Tax Cap" is a great sound bite but does little to pay for these mandates. With the recent past six years of GAP elimination that took away \$8.2 million in state aid, the BOE does not feel that those balances are "over funded". It must also be noted that the \$7.3 million, IS THE TAX PAYERS MONEY, and IS prudently managed in proper bank accounts to be used in accordance with statute. The report has found **no evidence that inappropriate use has occurred**.

The most glaring contradiction is within the Office of State Comptroller itself. The District finds it difficult to reconcile the Fiscal Stress Monitoring System and the recommendations of the audit report concerning reserves and fund balances. Both of these are from the same source, the OSC.

Both reports talk about expenses and revenues. One is the Fiscal Stress Monitoring System, whose purpose is to rate districts on their financial condition. A part of that rating is the result of annual activity flowing through the general fund and the amount of money from the fund categories which the audit report is criticizing. Wilson CSD is rated at a very sound, respectable 6.7% Fiscal Score for the school year 2014-15. Interestingly, the District performed worse and dropped from a 6.7% score in 2012-13 to a 16.7% rating in 2013-14, due to a depletion/spending of the very same funds the audit and auditor opines that we deplete/spend in an even "more aggressive fashion". Is the OSC really suggesting running the District into financial stress by following the recommendations of the auditors and audit report, as some of our neighboring districts found themselves in the last couple of years? The BOE does not think that this is a good idea and rejects the short sighted analysis. An out of context comment such as "and withheld funds from being used to meet District needs", has no merit whatsoever, unless qualified. Nowhere in the report does it mention what "needs" have not been met. This comment is an incendiary one and brings into question the validity of the whole report in our opinion.

The District further believes that the audit report and their opinion are wrong when speaking about the Capital Reserve Fund. The report wrongly connects and states that "the District did not have a plan for any immediate capital projects for which these funds could be used". First it must be noted that our Capital project reserve fund has a funding life of 20 years. By asserting that an "immediate" plan for a

20 year life cycle is practical, is questionable. The State however does make sure that a plan for expending these funds does have a detailed plan which must be voter approved. The District has and will continue to abide by the law. All laws have been followed and each project has been successfully completed. Again, validity of the whole report is questionable when these types of inflammatory comments are made.

When addressing the unemployment reserve, the scope, as stated earlier, was limited to a short duration. The District does plan for the use of this reserve as a revenue source WHEN it is appropriate. Although we made significant lay-offs in the past, we did not layoff any employees in the years looked at during the scope period, so it would stand to reason that there was no revenue projected for those years. It is further clear and documented that our Five Year Plan does indicate that we have a staffing/enrollment imbalance and will require ongoing changes, which may require layoffs. The unrealistic averaging methodology used in the report is not financially sound planning and the District rejects the comment as such.

The methodology used to quantify the 50 years of Workers Compensation is again, based on averages and is not grounded in reality. The District is pleased with and works hard to provide a safe working environment and hopes that these funds will never be needed, however and especially now with the tax cap; the District is comfortable with the current balance in the Workers Compensation Reserve Fund.

The report points out that the District budgeted for use of some of these funds but did not use the entire budgeted amount. There are many reasons for budgets and actuals not matching. The purpose of a budget is a guide, not reality. Actual expenses and actual revenues are reality. The District believes our budgeting process is prudent with a focus on both, reality and budgets.

In the exit interview, the auditor expressed that there was no transparency, no goals and most of all no plan regarding these funds. Upon making that statement, the District produced a Five Year Plan from the Superintendents 2016-17 budget folder. The document was physically brought to the table. The District expressed that this document has been used and regularly updated for the last six years. It was further explained that this document has been issued to the Board repeatedly in public session and the document includes separate lines regarding the entire District's fund balances and other financial summaries. The auditor verified that she did see the document during the field work, but did not feel it was good enough. We further explained that the District focuses on setting District Goals over a two month period, each year during the months of July and August. The final goals include a goal specific to finance. The finance-related goal has been part of the District's overall goals for at least the last 14 years. The District strongly disagrees with the comment made about planning and transparency based on the documents provided, since our Goals and Five Year Plan are regularly made available to the public.

Please accept the below response as our corrective action plan (CAP).

The report states two recommendations: "the Board and District officials should:"

- 1) Review and address the requirements for reserves in the Districts related policy and regulations. Specifically, they should document the purpose to be served by each reserve, the rationale used to determine the appropriate funding level, how each reserve will be funded and when the balances will be used to finance related costs.

CAP: The District does review and address the requirements by adhering to statute. The statute clearly documents the purpose and explains the appropriate use (i.e. rationale) for reserve and fund balance usage. The Finance Committee will continue to direct and manage all other aspects of the financial undertakings of the district.

- 2) Review all reserves at least annually to determine if the amounts reserved are necessary and reasonable. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with statutory directives.

CAP: The District currently reviews more than annually and will continue to do so. The Finance Committee will continue to discuss balances, historical, present and future. They will also keep in mind if any excess funds should be transferred or spent, will consider doing so.

Question two per the report:

Does the District ensure that the fuel purchased for the bus transportation services is properly accounted for? Our answer: YES

The fuel purchased for the transportation of students is ordered and regulated by the vendor and paid for by the district. The invoice is checked with the bus garage by the district to verify that the amount ordered/delivered and then paid for, is accurate. This is currently done by the District as documented in the report. In our opinion this answers the question.

The title of the audit reads "Wilson Central School District Reserves and Fuel Accountability." It was stated in the exit interview that the auditor reviewed our on campus management of fuel and found no issues. It was said multiple times that we did a good job managing our fuel on campus. The fact that this aspect of the "**Wilson Central School Reserves and Fuel Accountability**" was not included in the writing of the audit furthers the idea that a biased picture is being painted about the Wilson School District. By only citing the off-campus management of fuel by a third party vendor, shows the lack objectivity. Again, in this instance, that Auditor created a formula different than the one used by the vendor to draw these conclusions.

It is acknowledged that the bus fuel is comingled with another District at a third party vendor off site. For two years there has been no reconciliation of the equity of use by the bus company due to lack of personnel at the vendor which, contrary to the report, the district was aware of. It was determined that

when the reconciliation was done however, the calculations were, as the report said, not of much value and therefor seen as not necessary to continue. Hence, two years of non-reporting has occurred.

The report states three recommendations: "the Board should"

- 1) Contact the other school district and the contractor to formally document the process that will be used to determine equitable fuel use. The formal agreement should include who will prepare the fuel usage calculation and process that will be used to reconcile the equity of the fuel usage purchases and usage.

CAP: The District will call for a meeting to discuss this issue.

- 2) Establish policies and procedures to ensure that both the District and the Transportation contractor have adequate controls to safeguard and account for the Districts fuel supplies.

CAP: As a result of the meeting, control measures will be instituted. These measures may include but be not be limited to Ransomville Bus Company providing documentation for the equitable use of fuel.

- 3) Ensure that fuel usage calculation is reviewed on an annual basis.

CAP: Please see above CAP response.

This concludes the District's response and corrective action plan. The District would like to thank the Office of State Comptroller for their efforts and wish them well.

Respectfully,

Michael S. Wendt, Ed.D.
Superintendent of Schools

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We have reviewed the District's response letter, which generally indicates that District officials disagree with the tone, use of language in the draft report and certain audit scope and methodologies. The New York State Comptroller is the State's chief fiscal officer who ensures that the State and local governments use taxpayer money effectively and efficiently to promote the common good. In so doing, we conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

As our audit recommendations indicate, we identified improvement opportunities for the District to both increase the transparency and the effectiveness of its management of reserves and to ensure fuel purchased for bus transportation is properly accounted for. We encourage the Board and District officials to implement those recommendations.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's reserves and accountability over fuel used for student transportation for the period July 1, 2011 through December 22, 2015. We extended our scope back to July 1, 2002 to review certain reserve activity and extended our scope back to July 1, 2010 to review certain prior fuel reconciliation documentation. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of their financial management practices, oversight of fuel and relationship with the transportation contractor.
- We reviewed District policies and procedures related to reserves.
- We requested substantiation from District officials as to how they calculated and determined the appropriate balances for each of the reserves. We evaluated the balances in each reserve as of June 30, 2015 for reasonableness.
- We analyzed fund balance for the most recent three years and determined if appropriated fund balance was used as budgeted.
- We identified all reserves in place during the last three years and determined if they were properly established.
- We documented the flow of funds in and out of the reserves back to July 1, 2009 and determined if reserve funds were used toward related expenditures.
- We evaluated select expenditures that would be eligible to be paid from a reserve for the most recent three years. We calculated the average amount and determined how many years' worth of payments could be made from the related reserve.
- We interviewed representatives of the transportation contractor to gain an understanding of their accountability over fuel.
- We reviewed vendor activity reports related to fuel purchases, fuel invoices and the transportation agreement and associated extensions.
- We reviewed the transportation contractor's records documenting actual and estimated miles for the regular daily routes, sports trips, field trips, band shuttle and religious trips, transportation to religious and private schools and summer school transportation for 2011-12 through 2014-15.
- We reviewed fuel usage calculation reports prepared by the transportation contractor for 2010-11 through 2012-13.

- We calculated the average cost of fuel for each of the last five years by taking the total cost of fuel for the District for each year and dividing it by the total gallons of fuel purchased for that year.
- We calculated that actual amount of fuel purchased by the District for the last five years by using vendor history reports and the fuel usage reports supplied by the transportation contractor, as well as original fuel invoices from the fuel supplier. The calculation for the actual amount of fuel purchased by the other district is based on the fuel purchase reports supplied by the transportation contractor.
- We evaluated the method used by the transportation contractor to calculate the equity of fuel use for both districts. Based on documentation and data supplied by the District and the contractor, we examined the reasonableness of the contractor's fuel equity calculation.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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